Innovating for a Sustainable Electricity System

ANNUAL REPORT 2013

ONTARIO
POWER AUTHORITY

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March 31, 2014

The Honourable Bob Chiarelli
Minister of Energy
900 Bay Street, 4th Floor
Toronto, ON
M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2013 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year that ended December 31, 2013, and includes the audited financial statements.

Respectfully submitted,

James D. Hinds
Chair
Encl.

Planning Our Energy Future Together

The Ontario Power Authority fulfills a unique and vital role in Ontario's electricity sector – coordinating province-wide conservation efforts, planning the electricity system for the long term and contracting for electricity resources. We work closely with our industry partners and a broad range of stakeholders across the province to carry out these activities.

Together, we are innovating to ensure a sustainable future for Ontario's electricity system through our work to reduce energy use, maintain reliability and establish a clean, modern and cost-effective power grid.

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Message from the Chair and CEO

James D. Hinds, Chair   Colin Andersen, CEO

The OPA's role in Ontario's electricity sector is both vital and unique. Our mandate is to ensure that Ontario residents, businesses, schools and hospitals have the electricity they need – when and where they need it – now, and in the future. We are responsible for ensuring that the province's electricity system remains reliable, sustainable and cost-effective.

Over the past few years, we have worked with our industry partners and stakeholders to transform Ontario's electricity system to make it more sustainable – cleaner, greener and smarter. This transformation is largely a result of our conservation, supply procurement and long-term planning initiatives, under the direction of the Ontario government.

Ontario has set ambitious conservation targets and has implemented comprehensive conservation activities to meet them. These include a mix of incentive programs to help residential, business, institutional, industrial, low-income and Aboriginal customers manage their energy use, and to build a culture of conservation across the province. Ontario's conservation programs are being delivered at a program cost of less than 4 cents per kilowatt-hour – cost-effective conservation is the resource of first choice. We are fostering cost-effective innovation through our Conservation Fund, pilot projects, market-transformation activities and the Advisory Council on Conservation to ensure the sustainability of our endeavours.

When coal-fired generation is eliminated at the end of 2014 – the largest climate-change initiative in North America – Ontario will have reduced its electricity sector's carbon footprint by 75 percent from 2005 levels. The OPA is bringing on cleaner energy resources to replace coal and modernize our generating fleet. By the end of 2013, about 5,500 megawatts of new natural gas and 4,300 megawatts of new renewable energy capacity from solar, wind, hydroelectricity and biogas had been brought online since 2005 through a variety of programs, including our Feed-in Tariff (FIT) and microFIT programs for commercial and residential-scale projects, as well as programs for hydroelectric power and large renewable energy projects. New resources will continue to come onto the grid in the next few years. At the end of 2013, the OPA had contracts for 1,200 megawatts of new natural gas and 5,300 megawatts of new renewable energy capacity. These projects are expected to be in commercial operation by 2018.

Through our long-term planning, we continue seeking innovative solutions to meet the changing needs of our province. We worked throughout the year with the Ministry of Energy to develop the updated Long-Term Energy Plan released in December 2013 and are now working to implement its components. The plan was based on extensive research and stakeholder engagement across the province. In early August, we completed a report on regional planning and large energy infrastructure siting in collaboration with the Independent Electricity System Operator (IESO), also based on our research and engagement initiatives. The report recommendations were accepted in their entirety and announced by the Premier and Minister of Energy. Our work in implementing the report's recommendations is well under way and is being coordinated with the IESO and the ministry.

These efforts complement our regional planning initiatives that involve working closely with stakeholders

to develop customized solutions for Ontario's diverse regions. Activities are taking place in a number of areas across the province to meet each region's needs and characteristics through an integrated combination of conservation (demand management and energy efficiency), transmission, distribution and generation. Significant initiatives resulting from this collaborative work are moving forward – for example, in the regions of Kitchener-Waterloo-Cambridge-Guelph, Toronto, and Northwest Ontario – north of Dryden and in remote communities. The OPA's role in regional planning was recently formalized through the Ontario Energy Board's Renewed Regulatory Framework for Electricity initiative.

We've clearly come a long way, but we believe that we can – and need to – go further.

We will continue to consider sustainability through existing planning processes, engagement of local communities, transparency and clear, consistent evaluations and advice. We are also developing a framework that strengthens our commitment to sustainability and contemplates approaches for enhanced integration and reporting. We will continue our focused initiatives to ensure that conservation is the first resource considered in planning decisions at the provincial and regional levels, and is treated on a level playing field with other resources.

The increasing volume and complexity of our work and public expectations require us to build stakeholder activities and communications for all of our initiatives and programs. Our new Stakeholder Advisory Committee, revised program design and enhanced regional planning initiatives will help us to achieve this.

Based on feedback from our various engagement processes, we will be working with our industry partners to enhance electricity awareness and improve access to useable data and information. This is to address the strong desire of Ontarians (municipalities, First Nations, Métis communities, stakeholders and the general public) to better understand electricity planning and siting so they can become involved early on and effectively participate in decision-making.

Expenses in 2013 were five percent lower than in 2011 and were consistent with 2012 expenses. We continued to constrain operating expenses in 2013 while delivering on an expanded mandate and workload, including an increased number of contracts under management. We were managing over 21,000 contracts for 22,448 megawatts of electricity at the end of 2013. We will be managing nearly 28,000 contracts by the end of 2014 – an increase of 610 percent from 2010 and of 131 percent since 2011. These contracts represent about 24,000 megawatts of electricity, or two-thirds of Ontario's total electricity system.

The OPA is also committed to working within the context of the union certification process that is under way.

We also manage many procurement initiatives, such as our Hydroelectric Contract Initiative, a new unbuilt rooftop solar program, a new hydroelectric standard offer program for municipalities and expansion of existing facilities, and a new program for large renewable energy projects. We take every opportunity to streamline and achieve efficiencies in our existing programs, and to apply the lessons we've learned over the past few years to the new programs.

Our multi-faceted efforts are dedicated to making Ontario a world-leading clean energy jurisdiction to support our future economy. Steps taken now will help ensure that our electricity system meets the changing needs of Ontarians and enhances the province's economic prosperity.

James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

OPA Performance

The following table sets out key OPA performance metrics from 2011 to 2013.

	2011 Actual	2012 Actual	2013 Actual
OPA operating expenses ($M)	$62.2	$59.8	$60.2
Total program spending ($M)	$2,529	$2,909	$3,730
Number of directives in year	10	7	10
Number of directives to date	56	63	73
Annual energy reduction (GWh)	717	671	869*
Total generation contracted by the OPA (MW)	21,039	22,411	22,448
Total generation contracts held by the OPA	12,099	16,788	21,118

*Forecasted in 2013; the final amount will be determined in 2014 once actual savings are verified.

Engaging with Ontarians to Conserve Electricity

Working with our partners, the OPA guides the province's electricity conservation efforts by supporting conservation programs and conservation innovation, building market capability and a culture of conservation, engaging with communities and building relationships with our customers. We work collaboratively with local distribution companies and other partners to ensure Ontario residents, businesses, hospitals and schools have the information and tools they need to manage their electricity use efficiently.

Achieving conservation savings in Ontario

Ontario has made good progress in achieving its ambitious conservation targets. Conservation programs to help the province reach its targets are available to residents and businesses across the province and are delivered by local distribution companies or directly by the OPA. This includes the suite of **saveONenergy**SM programs (www.saveonenergy.ca) with their energy- and demand-saving initiatives to cost-effectively reduce the demand for electricity, while providing customers with real-time energy-saving data and educational tools to help them better manage their overall energy use.

In 2013, the OPA worked closely with local distribution companies to make sure consumers were aware of and had an opportunity to participate in these programs. The OPA also increased its collaboration with local distribution companies and developed new areas of flexibility and innovation with them. Uptake in these programs increased as a result of these efforts.

Verified results of 2012 conservation programs, which became available in September 2013, showed that Ontario achieved 671 million kilowatt-hours of verified annual energy savings and reduced demand by 643 megawatts across the province. This includes savings from energy-efficiency and demand-response initiatives offered through local distribution companies and directly by the OPA. By the end of 2013, Ontarians had conserved 8.6 terawatt-hours of electricity – enough to power a city the size of Mississauga. In his *2012 Annual Energy Conservation Progress Report* released in December 2013, the Environmental Commissioner of Ontario found that the suite of conservation programs provided good value for ratepayers.

All programs funded through the OPA in 2012 were evaluated using a rigorous evaluation, measurement and verification process. Based on the lessons learned from this process, conservation programs continue to be enhanced and more tools and training programs are being created to help customers improve their operations and save on energy costs. Conservation is delivered at a program cost to consumers of under four cents per kilowatt-hour. Cost-effective and feasible, conservation is the resource of first choice.

OPA-delivered programs in 2013 included the Aboriginal Conservation Program, which launched in August with 12 communities across Ontario (including two remote First Nations) participating to identify opportunities and complete energy-efficiency retrofits.

The OPA also delivers demand-response programs and the Industrial Accelerator Program, which is offered to transmission-connected customers. It is one of North America's largest industrial demand-reduction incentive programs.

Building market capability

The OPA continued to deliver technical training for local distribution company sales staff and customers to provide them with skills and tools to identify areas of potential conservation savings in businesses across Ontario. Thousands of people have attended these workshops. In addition, to support **save**ON**energy** program participation and effective energy management, incentives are provided for local distribution companies and businesses to hire energy managers. These individuals provide technical expertise for energy-efficiency projects and energy management plans.

The OPA is increasing capability initiatives and has expanded its channel engagement activities. This year we engaged a number of key sectors, including heating, ventilation and air conditioning; building and industrial controls; lighting; and retailers, to increase outreach to end-use customers and to augment local distribution company efforts to achieve their conservation targets.

Supporting conservation innovation

The OPA's Conservation Fund is helping to transform the conservation market by supporting the implementation of innovative energy-saving projects and technologies. In 2013, the fund committed over $8.4 million to 10 new projects. Since 2005, the fund has committed $45.7 million in support to 186 projects. These projects leveraged an additional $125.8 million in partner support. The new projects are contributing to overall energy savings, informing policies and programs and promoting awareness of innovative conservation activities.

The OPA continued to seek new opportunities to motivate and measure electricity savings based on behavioural changes. Supported through the Conservation Fund, a series of social benchmarking pilot programs are testing residential engagement strategies, savings potential, behavioural impact and the feasibility of their integration into the overall Ontario market. Pilot hosts include Hydro One, Milton Hydro and Horizon Utilities. The fund also supports the four-year CivicAction Race to Reduce initiative in which tenants and landlords collaborate to encourage smart energy use in commercial properties. By the end of December, participants had reduced their collective energy use by nine percent – nearly a year ahead of schedule for the 10 percent target by the end of 2014.

In 2013, the OPA introduced a "fast-track" process to bring innovative local distribution company program ideas to market as pilot programs. Two new pilots focused on multi-residential and small commercial buildings and many other ideas are in process.

Building a culture of conservation

The OPA continued to lead the province in building a culture of conservation by assisting the government in its work on long-term conservation planning through the Conservation First initiative and community energy planning. Our efforts also included supporting the development of building codes, new product standards and other conservation policy initiatives; and recognizing conservation successes. We also continued to conduct market research to monitor the development of a culture of conservation across the province, to identify the key influences driving energy-efficiency behaviour and to help establish goals for future progress.

Community energy planning is a powerful tool for engaging communities in electricity planning and in identifying conservation opportunities. The OPA continued to support Quality Urban Energy Systems of Tomorrow (QUEST) in its work in this area. This included the development of a primer that provides context for community energy planning in Ontario and an overview of opportunities for collaboration across municipal energy planning and provincial/regional electricity planning.

In 2013, we celebrated conservation successes through our support of the first Conservation Leadership Excellence Award from the Electricity Distributors Association. Another initiative was a collaborative effort led by the OPA with the Association of Municipalities of Ontario and the Electricity Distributors Association. The Community Conservation Awards, now in their second year, celebrate the work of Ontario municipalities to support province-wide conservation goals by recognizing the efforts of three municipalities each year. The 2013 winners were Burlington, Sault Ste. Marie and South-West Oxford. We also partnered with the Ontario Science Centre in late December and early January to engage with the public on energy conservation and our **saveONenergy** programs.

Planning a Sustainable Future Together

The OPA engaged in a broad range of important planning activities for the electricity sector, including providing input into the government's Long-Term Energy Plan, developing regional plans across the province to meet local needs, and supporting sector initiatives, regulatory processes and the OPA's conservation and procurement programs.

Long-term energy planning

The OPA provided advice and technical analysis to the government in the update of the Long-Term Energy Plan. Released in December 2013, *Achieving Balance* provides policy direction for planning the electricity system. It recognizes low demand growth and uncertainties, builds flexibility and monitors developments frequently for course corrections. The plan sets direction for future generation, conservation and storage development and identifies priorities for transmission and distribution. It seeks to balance Ontario's demand and supply using five principles that will guide future decisions: cost-effectiveness, reliability, clean energy, community engagement and an emphasis on conservation and demand management before building new generation.

The OPA participated in all of the Long-Term Energy Plan consultation sessions across the province as a technical resource, developing and presenting information to provide context for discussions. In December, the Minister of Energy wrote to the OPA regarding a series of follow-up Long-Term Energy Plan activities.

Regional planning

The OPA, in partnership with the Independent Electricity System Operator (IESO), conducted a public review of regional planning and large infrastructure siting processes in 2013. As a result of the consultation, 18 recommendations for improving regional planning and resulting large infrastructure siting processes were submitted to the government. These recommendations were accepted by the government and announced by the Premier and the Minister of Energy in November. Work has commenced to implement them.

The three core recommendations deal with early and frequent community outreach during the integrated regional planning process, local voice and local responsibility, and inter-ministerial coordination. The recommendations are grouped into four areas: bringing communities to the table, linking local and provincial planning, reinforcing the planning/siting continuum, and enhancing electricity awareness and improving access to information.

The OPA already incorporates many of the recommendations in its planning processes. For example, we have been engaging with local communities, municipal governments, First Nation and Métis communities and others in finalizing existing regional plans and when developing new regional plans. Work has started to enhance these aspects to accomplish the objectives of the review. Eight of these plans are under way across Ontario in areas facing supply constraints: Central-Downtown Toronto, the Northwest Greater Toronto Area, Ottawa, Northwest Ontario, Kitchener-Waterloo-Cambridge-Guelph, Brant, Windsor-Essex and York Region. Draft plans for the North of Dryden area and remote communities in Northwest Ontario are currently in a public engagement process, consistent with the principles set out in the planning and infrastructure siting recommendations accepted by the government.

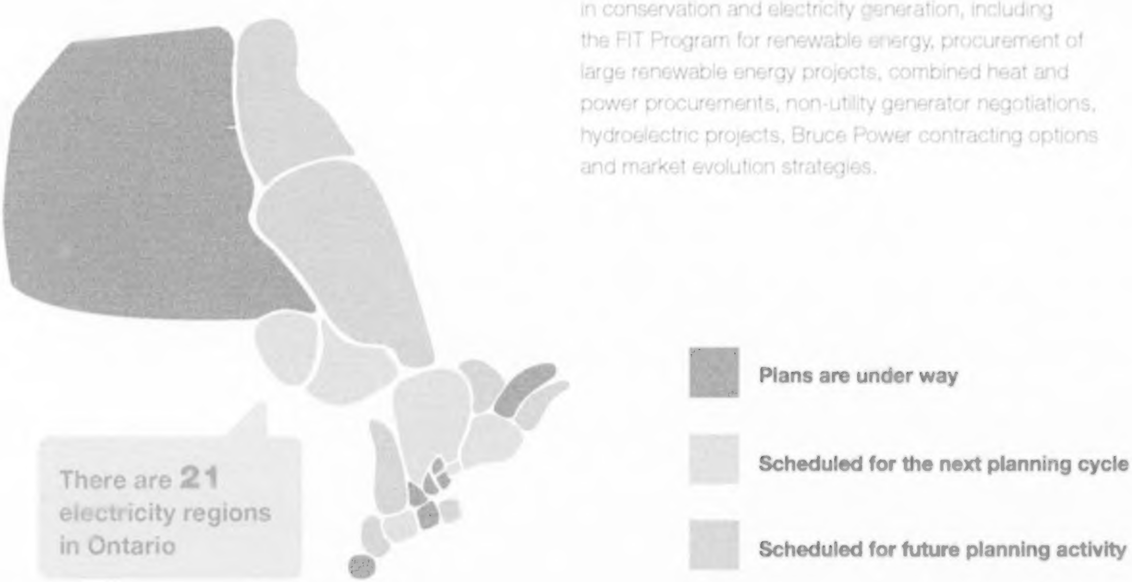
The OPA's role in regional planning has also been recently formalized through the Renewed Regulatory Framework for Electricity initiative of the Ontario Energy Board (OEB). This includes incorporating responsibilities for regional planning into the OPA's licence.

The OPA has launched interactive web pages for all regional planning initiatives. These pages provide up-to-date information on the initiatives taking place in Ontario's 21 electricity regions.

Supporting regulatory processes and procurements

The OPA participated in a number of regulatory processes before the OEB. These included: the OEB's initiative to develop new regional planning processes, the consultation and approvals processes for the East-West Tie transmission project, Toronto Hydro's rate application, Hydro One's Guelph Area Transmission Refurbishment project and the Clarington Transmission Station, Ontario Power Generation (OPG) nuclear refurbishments, as well as the OEB's review of stand-by rates, and principles for smart grid applications such as storage.

The OPA's planning group provided technical and planning support to procurement and program developments in conservation and electricity generation, including the FIT Program for renewable energy, procurement of large renewable energy projects, combined heat and power procurements, non-utility generator negotiations, hydroelectric projects, Bruce Power contracting options and market evolution strategies.



Procuring Generation for a Cleaner, More Reliable System

MANAGING ENERGY CONTRACTS

At the end of 2013, the OPA was managing about **22,448** megawatts of electricity supply under contract:

- **8,240** megawatts of renewable wind, solar and bioenergy
- **2,390** megawatts of renewable hydroelectric
- **8,818** megawatts of natural gas, combined heat and power, and energy from waste
- **3,000** megawatts of nuclear capacity.

We continued to handle higher volumes of contracts and were managing **21,118** contracts at the end of the year, compared to **16,788** at the end of 2012. This includes **18,265** microFIT and **2,608** FIT contracts and **245** non-FIT contracts.

We continued to make improvements to our contract management and settlement processes to handle these higher volumes more efficiently.

The OPA continued to procure electricity supply to help meet Ontario's needs for a clean and reliable electricity system. By the end of 2013, the OPA was managing contracts for two-thirds of the province's total electricity system.

Procuring cleaner energy for Ontarians

The FIT Program for renewable energy continued to account for a significant amount of the wind, solar and bioenergy under contract to the OPA. The OPA procured 143 megawatts of FIT projects and 29 megawatts of microFIT projects in 2013. Annual procurement targets are set by the government for these programs.

In June, the Minister of Energy directed the OPA to create a new competitive procurement process for large renewable projects (over 500 kilowatts) rather than include them in the FIT Program. The OPA engaged with stakeholders before submitting interim recommendations to the Minister at the end of August for this process. Further stakeholder engagement activities held in early 2014 will inform the final process.

Changes were also made to pricing for both the FIT and microFIT programs in late August to align with the current costs of designing and building renewable energy projects. We launched a pilot project for unbuilt rooftop solar projects (URSP) and a standard offer program for new municipal hydroelectric projects (HESOP Municipal Stream) in October.

The OPA continued to collaborate in sector development work with the IESO and others to integrate these renewable resources into our electricity system. The renewable integration initiative (SE-91) was implemented in September. This is to make transmission-connected renewable generators fully dispatchable, saving Ontario's electricity ratepayers up to $200 million per year from system efficiencies, according to the IESO. The OPA also negotiated contract savings of up to $65 million in total over the next five years – the period of heaviest surplus baseload generation, with the possibility of more savings over the life of the contracts.

We continued to enter into new contracts with existing hydroelectric facilities under our Hydroelectric Contract Initiative (HCI) according to the government's 2009 directive. We are also developing the HESOP Expansion Stream to provide expansion opportunities for hydroelectric facilities currently contracted with the Ontario Electricity Financial Corporation, or with the OPA under the HCI.

The OPA continued to engage with the Korean Consortium on its Phase 3 renewable energy projects in accordance with the Green Energy Investment Agreement.

Following direction from the Minister in June, the OPA has entered into negotiations with OPG and its First Nation partner, the Taykwa Tagamou Nation, regarding a contract for a proposed 25-megawatt New Post Creek hydroelectric generating station. Negotiations are expected to continue throughout 2014.

We continued to manage procurements for other electricity projects, such as natural gas-fired generation. And we worked to procure energy supply from other sources, including energy-from-waste projects and coal-fired facilities converted to biomass. In November, the government announced its plans for the conversion of the Thunder Bay Generating Station to advanced biomass to ensure reliable electricity service for homeowners, businesses and industry in the region.

In 2013, the OPA continued its negotiations with non-utility generators and proceeded with completing the initial launch phase of our Clean Energy Standard Offer Program.

The Industrial Electricity Incentive Program is allowing new and expanding industrial companies to benefit from the province's strong energy supply. Seven contract offers were made in December and all are expected to be executed in early 2014. These will provide discounted electricity to industrial customers bringing new load to the province. Additional opportunities for industry to participate in the program may occur in 2014.

A new 10-year contract for the Lennox Generating Station began in 2013. Negotiated by the OPA and OPG in December 2012, the agreement builds on the terms of Lennox's former contracts. The facility, which generates oil/gas-fuelled electricity, will provide reliability during peak demand times and backup when other sources are not available.

The OPA commenced negotiations with Bruce Power with a view to extending the life of the Bruce B units and ultimately planning for their refurbishment, in accordance with the Long-Term Energy Plan.

Providing funding assistance for renewable energy projects

The OPA continued to provide funding assistance to communities to develop renewable energy projects through the Community Energy Partnerships Program and Aboriginal Renewable Energy Fund. The Interim Municipal and Public Sector Energy Partnerships Program was launched in September to provide increased opportunities to these sectors. A full program will be developed for municipalities and public sector entities in 2014.

In coordination with the launch of the Ministry of Energy's Municipal Energy Plan Program, the OPA launched the Aboriginal Community Energy Plan program in August. Under this program, successful First Nations and Métis communities can apply for funds to develop an energy plan for their community. Communities across Ontario submitted 35 proposals and funding selections will be made in April 2014.

The OPA launched the revised Education and Capacity Building Program in December. This program, formerly under the Community Energy Partnerships Program, is now available to First Nation and Métis communities and organizations, municipalities, public sector entities, registered charities, not-for-profit organizations and co-operatives. The program provides support to diverse education and capacity-building initiatives, as well as support to facilitate knowledge-sharing and the participation of various target audiences in Ontario's renewable energy sector. Projects are expected to be approved for funding in April 2014.

In March 2014, the OPA posted Aboriginal Transmission Fund (ATF) program rules in draft for a comment period that included engagement with Aboriginal communities on the program design. When launched later in 2014, the ATF will support First Nation and Métis communities exploring equity positions in the development of major new transmission lines where the OPA has identified a need for transmission capacity as set out in the Long-Term Energy Plan.

In coordination with the draft rules posting, the OPA launched the ATF Reimbursement Funding program. Through this program, eligible Aboriginal organizations with established partnership arrangements relating to the East-West Tie transmission line and the Line to Pickle Lake may be eligible for reimbursement funding of up to $50,000 per partnership.

The OPA conducted a program evaluation to identify opportunities to improve, streamline and better align its renewable energy support programs. The evaluation process also identified the needs of and barriers to Aboriginal communities, cooperatives, municipalities and public sector entities as they develop renewable energy projects. A recommendation report was delivered to the Ministry of Energy in January 2014.

Engaging with Stakeholders for our Future

Engaging with a broad range of stakeholders allows us to deliver programs that best meet the needs of First Nations, Métis and local communities all across the province.

Engaging with First Nations and Métis

A key priority for the OPA is integrating First Nation and Métis perspectives into energy planning, conservation and program delivery. Our focus is on assisting in building capacity in these communities to participate in energy conservation, planning, transmission initiatives and electricity supply procurement.

In 2013, we formed the Aboriginal Energy Working Group to assist the OPA in identifying emerging Aboriginal-related opportunities and challenges arising in the sector. The group consists of First Nation and Métis individuals with experience in Ontario's electricity sector.

We continued to engage and support First Nations and Métis participation in Ontario's electricity system, including in major initiatives such as the Long-Term Energy Plan, the joint OPA/IESO regional planning and siting engagement, large renewable energy procurement and our Aboriginal renewable energy support programs.

The OPA undertook discussions with the Chiefs of Ontario and the Métis Nation of Ontario for capacity funding agreements that would allow each organization to create and staff energy analyst positions. The analysts will assist their member communities to participate more effectively in government electricity sector engagements and in the electricity sector generally. An agreement with the Métis Nation of Ontario was concluded in late 2013. The OPA is continuing its discussions with the Chiefs of Ontario.

We continued our work on planning to extend Ontario's transmission system to remote First Nation communities in Northwest Ontario. Working with the Northwest Ontario First Nation Transmission Planning Committee, we completed a draft technical report for discussion to further this initiative with Aboriginal communities, industry and various levels of government. We also committed to working with the four remote communities where connection is not seen as economic to consider options to displace the diesel generation they currently use.

Engaging with our many stakeholders

Continuing stakeholder engagement and communications to strengthen community and stakeholder relations remains a core focus for the OPA. In 2013, our efforts centred on regional planning, planning and siting of large energy infrastructure projects, the FIT and microFIT programs, procurement of large renewable energy projects, our conservation portfolio with local distribution companies and energy literacy initiatives.

At the heart of the OPA/IESO siting recommendations is engagement with local communities early and often. Our regional planning work therefore involves engagement with municipal governments, First Nations and Métis communities, local communities and other stakeholders in our active regional planning areas. This is supported by an enhanced website for the 21 electricity planning regions in the province.

The OPA also has been working to enhance electricity awareness by improving access to information through its website, including providing detailed web-based materials explaining electricity pricing. We are also increasing access to data by making it available to consumers, industry, municipal planners and academic researchers. Information was provided as part of the Long-Term Energy Plan engagement process, with more to come in the annual energy reporting initiative included in the plan.

In November, we formed the Stakeholder Advisory Committee to provide advice on policy issues related to the OPA's mandate. The group consists of recognized leaders representing a broad range of interests in the electricity sector. The committee held its first meeting in January 2014 and plans to meet six times in its first year. The committee will build on existing OPA outreach activities, including the Advisory Council on Conservation and the Aboriginal Energy Working Group.

The OPA also continued to host regular management teleconferences to give stakeholders the opportunity to speak directly to senior management.

This year we expanded our use of social media to engage with our stakeholders. Look for us on Twitter, Facebook, LinkedIn, Google+ and YouTube.

Continuing our commitment to social and environmental responsibility

The OPA's employees continued to support a number of charities and to make dedicated efforts to reduce the environmental footprint of our operations. Through their efforts, we made progress toward our 2013 environmental targets for electricity, paper and waste reduction in a range of initiatives to raise staff awareness, support and engagements for these initiatives. As in past years, we received strong public recognition for our work, including winning Pollution Probe's Clean Air Commute for our size category for the third straight year and the HP Change the Equation sustainability reporting contest for our 2012-2013 internal environmental report. The contest is part of WWF-Canada's Living Planet @ Work program designed to empower and engage employees in sustainable practices at work. We also received a Greater Toronto Top Employer award for the fourth year in a row.

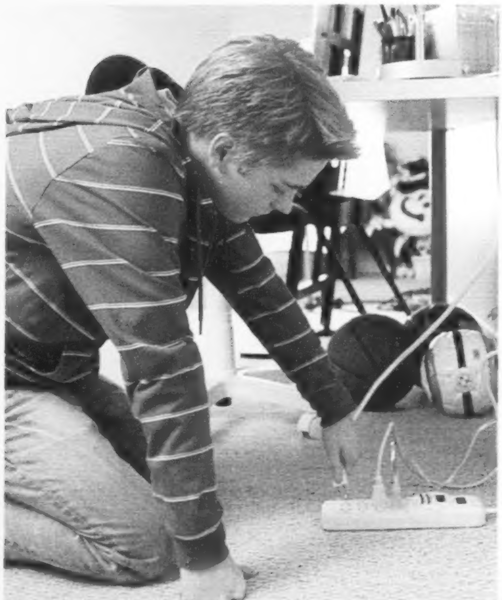
For more information on initiatives referenced in this report, please visit our website at **www.powerauthority.on.ca**.

For information about our planning activities:
www.powerauthority.on.ca/power-planning

For information about our conservation activities:
www.powerauthority.on.ca/opa-conservation

For information about our generation activities:
www.powerauthority.on.ca/generation

Management Discussion and Analysis



2013 HIGHLIGHTS

- With our partners, the OPA guided the province's electricity conservation efforts by supporting conservation programs, conservation innovation, building market capability and a culture of conservation, engaging with communities and building relationships with our customers.
- We supported the development of the government's Long-Term Energy Plan and executed directives related to Ontario's electricity supply.
- We strengthened community and public engagement through the establishment of the Stakeholder Advisory Committee and other initiatives.
- We collaborated with the IESO to recommend a new integrated regional energy planning process that focuses on improving the way large energy projects are sited in Ontario.
- We managed and settled an increasing volume of generation contracts accounting for two-thirds of Ontario's electricity system.
- We are committed to working within the context of the union certification process that is under way.

The following is a discussion of the operating results of the Ontario Power Authority (OPA) for the year ended December 31, 2013. Further details can be found in the financial statements and notes.

- The OPA incurs expenses to achieve its mandate. These expenses include wages, professional expenses, leases and other general operating expenses that are needed to manage and support long-term system planning, electricity generation and provincial conservation programs.
- The OPA incurs charges related to conservation programs to meet Ontario's conservation targets for electricity savings, as well as charges related to generation contracts, to provide an adequate, reliable and sustainable electricity supply to the province. These charges are reflected in the global adjustment mechanism (GAM) and are discussed later in this report.

Financial performance

REVENUE

Feed-in Tariff (FIT) Program registration fees drive revenue increase.

The OPA has three different sources of revenue that are used to fund its expenses:

FEES: an Ontario Energy Board (OEB)-approved rate charged to Ontario electricity consumers on a consumption basis, with total fees revenue targeted to recover the OPA's operating budget. With the OEB's approval, the OPA continued to collect an interim usage rate of $0.551/MWh, set in 2011. In 2013, total revenue increased to $78.4 million from $75.6 million in 2012.

REGISTRATION FEES: an administrative charge on OPA procurements. In 2013, registration fees were $1.7 million, primarily due to collection of registration fees for FIT Program applications.

OTHER REVENUE: interest and miscellaneous income.

Table 1: 2013 and 2012 Revenue

OPA REVENUE (in millions)	2013	2012	CHANGE
Fee revenue	$75.9	$76.3	**-$0.4**
Registration fees	1.7	-1.5	**3.2**
Other	0.8	0.8	**0.0**
TOTAL REVENUE	**$78.4**	**$75.6**	$2.8

OPERATING EXPENSES

Operating expenses marginally increased compared to 2012 as we continued to pursue operational efficiencies while handling an expanded mandate, increasing volume and complexity of work.

Expense items are captured in the following categories: compensation and benefits, professional fees, Conservation Fund disbursements, general operating expenses, as well as amortization of capital assets. In 2013, total operating expenses of $60.2 million increased by $0.4 million or 0.7 percent from 2012. This is a reduction of $3 million or five percent from 2011 expenses.

$1.6 million

COMPENSATION AND BENEFITS: total expenses of **$33.6** million were **$1.6** million higher than in 2012. Higher compensation expenses were primarily due to additional temporary resources to support the FIT and microFIT programs.

$1.6 million

PROFESSIONAL FEES: total 2013 expenses of **$12.5** million increased by **$1.6** million or 14.8 percent from 2012. This increase was primarily due to increased legal consulting on electricity resource matters.

$0.8 million

GENERAL OPERATING EXPENSES: general operating expenses totalling **$10.9** million in 2013 were **$0.8** million lower than in 2012, primarily due to increased operational efficiencies.

$1.9 million

OTHER EXPENSES: other expenses totalling **$3.2** million in 2013 were **$2.0** million lower than in 2012, largely as a result of lower amortization and Conservation Fund expenses. As Conservation Fund expenses have been treated as charges for projects approved since 2011, there will be a continuous decline in fund expenses in future years.

As a result of an increase in usage fee revenues, the OPA had accumulated an operating surplus as of December 31, 2013. The OPA will apply to the OEB for approval to provide a refund to ratepayers in 2014.

Table 2: 2013 and 2012 Operating Expenses

OPA OPERATING EXPENSES (in millions)	2013	2012	CHANGE
Compensation and benefits	$33.6	$32.0	**$1.6**
Professional and consulting	12.5	10.9	**1.6**
Conservation funds	0.4	0.7	**-0.3**
General operating expenses	10.9	11.7	**-0.8**
Amortization of capital assets	2.8	4.5	**-1.7**
TOTAL OPERATING EXPENSES	$60.2	$59.8	$0.4

Figure 1: 2013 and 2012 Operating Expenses by Expense Category

PROGRAM SPENDING

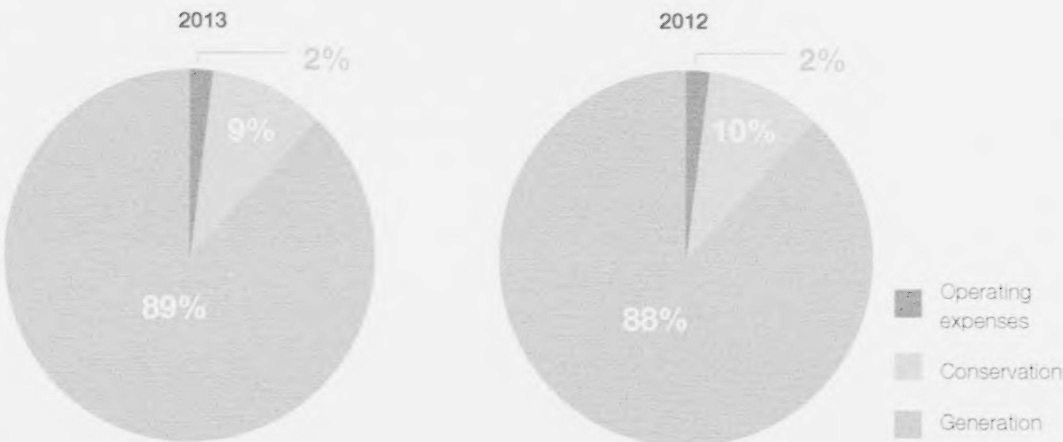
Program spending, also known as "charges," consists of payments to suppliers and participants in the OPA's conservation and generation initiatives and is reflected in GAM.

Despite a continuing increase in program activities and corresponding program spending, the OPA was able to decrease its operating expenses for the year from two percent to 1.6 percent of total program spending. Generation program spending is higher in 2013 due to an increase in the number of contracts achieving commercial operation. Conservation-related program spending provided financial assistance toward meeting or exceeding the provincial conservation targets.

Table 3: 2013 and 2012 Operating Expenses and Program Charges

OPA EXPENSES (in millions)	2013 Actual	2012 Actual	CHANGE
Operating expenses	$60.2	$59.8	$0.4
Conservation programs	$335.2	$301.1	$34.1
Generation programs	$3,395.1	$2,608.3	$786.8

Figure 2: 2013 and 2012 Operating Expenses, Conservation Program Charges and Generation Charges (in millions)



Electricity supply contracts include nuclear, natural gas and renewable generation facilities. Generation charges account for changes in the mix of fuel sources and total installed capacity under contract in operation and for differences between the Hourly Ontario Electricity Price (HOEP) and the rates paid to contracted generators for electricity in Ontario. In 2013, total electricity generation charges increased 30 percent over 2012 (Figure 2). The increase of the contract payments can be attributed to increased capacity associated with the restart of two nuclear units, new renewable generation contracts and increased production from existing hydroelectric renewable generation.

The OPA will continue to develop, implement and manage a robust portfolio of conservation programs while integrating its evaluation, measurement and verification system to track overall progress in meeting Ontario's conservation targets.

Global Adjustment Mechanism (GAM)

GAM accounts for differences between HOEP and the rates paid to regulated and contracted generators for electricity in Ontario. As a result, elements of GAM may be positive or negative, depending on the fluctuation of prices in the wholesale electricity market. It also includes amounts paid for conservation and demand management programs, as well as green energy initiatives. GAM applies to all consumers in Ontario, including business customers who pay the dispatch market price (HOEP) and customers who have signed a contract with a licensed electricity retailer. For customers who subscribe to the Regulated Price Plan (RPP), it is factored into the rate set by the OEB.

The global adjustment reflects the difference between the dispatch market price and:

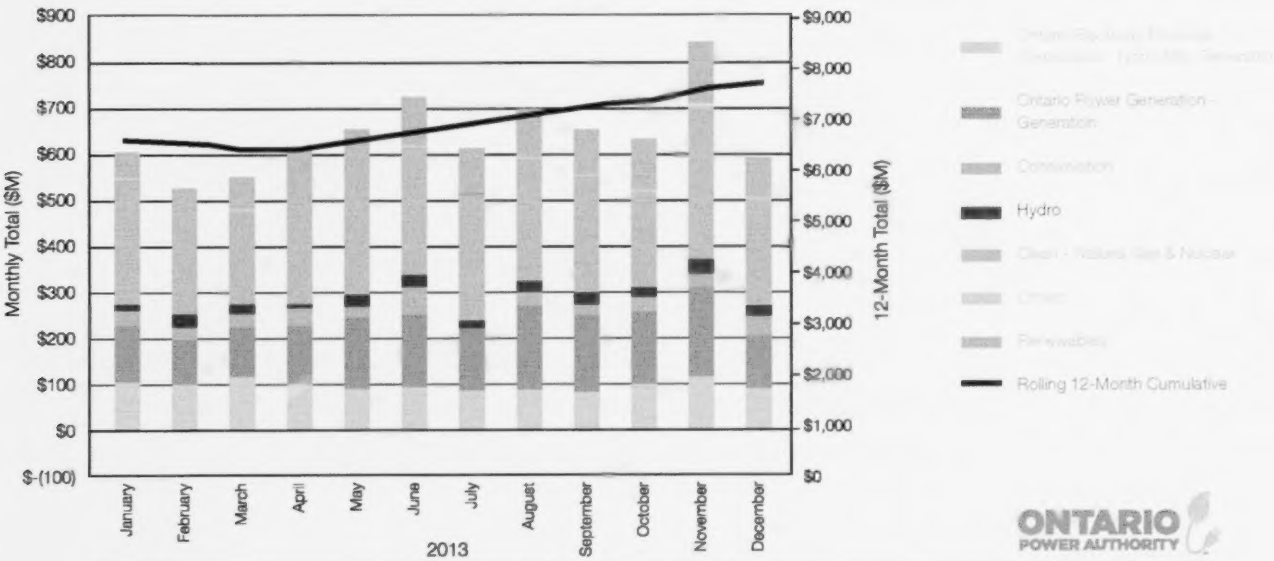
- regulated rates paid to Ontario Power Generation's (OPG's) nuclear and hydroelectric baseload generating stations
- payments made to suppliers that have been awarded contracts through the OPA, such as new gas-fired facilities, renewable facilities (e.g., FIT and microFIT program projects) and demand response programs
- contracted rates administered by the Ontario Electricity Financial Corporation (OEFC) paid to existing generators.

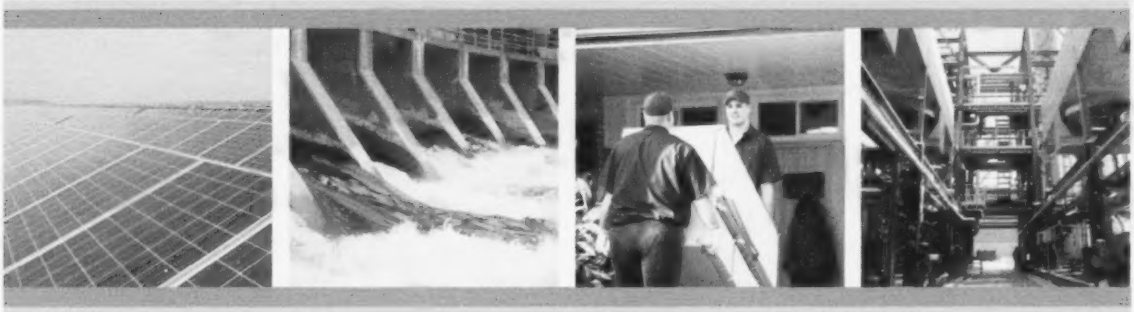
ACCOUNTING FOR GAM

The OPA has a legislated responsibility to record transactions that flow through GAM. To meet this requirement, the OPA records the cash flows related to procurement contracts held, managed, or under its responsibility. The account is settled monthly; however, the settlement process for OPA contracts requires an estimate of the balance owing to suppliers at each month end. This estimate is filed with the IESO at the end of each month and the amount is received by the OPA in the following month to settle electricity payments to contractors. Any variances between the actual amounts paid and estimated amounts payable are included in the following month's settlement. At December 31, 2013, a balance of $394 million existed in relation to amounts receivable from the market through the IESO to fund electricity payments.

Figure 3 highlights OPA cash flows from GAM for the 12-month period ending December 31, 2013. The rolling 12-month trend line reflects the average monthly global adjustment cash flows for the previous 12-month period. This is compared to the global adjustment cash flows for each month. The global adjustment increases and decreases in response to changes in HOEP. When HOEP is lower, the global adjustment is higher to cover the additional payments for energy contracts and other regulated generation. The global adjustment also increases as new projects come into service and contract payments take effect.

Figure 3: OPA Cash Flows from the Global Adjustment Mechanism





Executive Compensation Plan

PROGRAM OBJECTIVES

The OPA executive compensation program is an integrated program for all executive staff. It is designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program have the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

For the seventh consecutive year, the OPA's Board of Directors approved a freeze on the subsequent year's salary structure for executives. In freezing the executives' salary structure for 2014, the OPA's Board took into consideration many social, economic and legal factors, such as prevailing financial and employment conditions, and government fiscal considerations, including compliance with the 2012 amendments to the *Broader Public Sector Accountability Act, 2010*.

Table 4 sets out the annual compensation for the year ended December 31, 2013 for the listed executive officers. The total cash compensation information provided below matches the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period.

Table 4: Summary of Executive Compensation[1]

Name, Position Title	Year	Salary Paid	Taxable Benefits	Amounts Reportable Under *Public Sector Salary Disclosure Act*[2]
Colin Andersen, Chief Executive Officer	2013	$573,027	$1,064	$574,091
	2012	$573,027	$900	$573,927
	2011	$573,027	$871	$573,898
Kimberly Marshall, Vice-President, Business Strategies and Solutions (CFO)	2013	$255,172	$969	$256,141
	2012	$255,172	$820	$255,992
	2011	$254,952	$799	$255,751
Amir Shalaby, Vice-President, Power System Planning	2013	$449,329	$1,064	$450,394
	2012	$449,541	$900	$450,441
	2011	$449,939	$878	$450,817
Andrew Pride, Vice-President, Conservation	2013	$316,970	$1,064	$318,035
	2012	$316,970	$900	$317,870
	2011	$316,970	$886	$317,856
JoAnne Butler, Vice-President, Electricity Resources	2013	$371,925	$1,064	$372,989
	2012	$371,925	$900	$372,825
	2011	$371,924	$878	$372,802

[1]**Executives are listed in the following order:**
Chief Executive Officer, Chief Financial Officer, then in alphabetical order by first name.
[2]Total T4 income, including taxable benefits.

Management Report

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Ontario Power Authority are the responsibility of management and have been prepared in accordance with Canadian Public Sector Accounting Standards. The significant accounting policies followed by the Ontario Power Authority are described in Note 2 of the financial statements. The preparation of financial statements involves transactions affecting the current period which cannot be finalized with certainty until future periods. Estimates and assumptions are based on historical experience and current conditions believed to be reasonable.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting. The system of internal controls we have established is designed to provide reasonable assurance over safeguarding of assets and the reliability of financial reporting and preparation of financial statements. The system includes formal policies and procedures and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

These financial statements have been examined by KPMG LLP, a firm of independent external auditors appointed by the Board of Directors. The external auditors' responsibility is to express their opinion on whether the financial statements are fairly presented in accordance with the accounting standards used by management. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

ONTARIO POWER AUTHORITY

On behalf of management,

Colin Andersen

Colin Andersen
Chief Executive Officer

K. Marshall

Kimberly Marshall
Vice-President, Business Strategies & Solutions

KPMG LLP
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Toronto ON M2P 2H3
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Ontario Power Authority

We have audited the accompanying financial statements of Ontario Power Authority, which comprise the statement of financial position as at December 31, 2013, the statements of operations, changes in net assets and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ontario Power Authority as at December 31, 2013, and its results of operations, its changes in net assets and its cash flows for the year ended December 31, 2013 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 25, 2014
Toronto, Canada

Financial Statements

Statement of Financial Position (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	$76,140	$315,631
Accounts receivable (note 3)	438,183	546,963
Prepaid expenses	359	564
	514,682	**863,158**
Capital assets (note 4)	4,463	6,628
Total assets	**$519,145**	**$869,786**

Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$362,031	$474,839
Operating loan (note 13)	-	60,000
Contract deposits (note 6)	23,239	28,996
Other liabilities	593	105
	385,863	**563,940**
Deferred rent inducement, net (note 7)	258	403
Other financial liabilities (note 8)	99,237	289,918
Net assets:		
Internally restricted Conservation funds (note 9)	9,534	9,939
Invested in capital assets	4,463	6,628
Accumulated operating surplus (deficit)	19,790	(1,042)
	33,787	**15,525**
Commitments (note 7)	-	-
Contingencies and guarantees (note 14)	-	-
Total liabilities and net assets	**$519,145**	**$869,786**

See accompanying notes to financial statements.

Statement of Operations (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

		2013	2012
Revenue:			
	Fees (note 13)	$75,934	$76,298
	Registration fees (note 6)	1,720	(1,456)
	Interest income	-	666
	Other income	794	102
		78,448	**75,610**
Expenses:			
	Compensation and benefits	33,544	32,034
	Professional fees	12,453	10,852
	General operating costs (note 10)	10,943	11,742
	Conservation funds expenses (note 9)	405	728
	Amortization of capital assets	2,841	4,427
		60,186	**59,783**
Excess of revenue over expenses		**$18,262**	**$15,827**

See accompanying notes to financial statements.

Statement of Changes in Net Assets (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operat-ing Surplus (Deficit)	2013 Total Net Assets	2012 Total Net Assets
Balance, beginning of the year	$6,628	$9,939	$(1,042)	$15,525	$(302)
Excess of revenue over expenses	(2,841)	-	21,103	18,262	15,827
Conservation funds expenses	-	(405)	405	-	-
Purchase of capital assets	676	-	(676)	-	-
Balance, end of the year	**$4,463**	**$9,534**	**$19,790**	**$33,787**	**$15,525**

See accompanying notes to financial statements.

Statement of Cash Flows (in thousands of dollars)

Year ended December 31, 2013, with comparative figures for 2012

	2013	2012
Cash flows from operating activities:		
Excess of revenue over expenses	$18,262	$15,827
Items not involving cash:		
Amortization of capital assets	2,841	4,427
Amortization of deferred rent inducement	(145)	(144)
Change in non-cash operating items (note 12)	(9,580)	(1,413)
	11,378	18,697
Cash flows from financing activities:		
Increase in other liabilities	488	22
Decrease in operating loan	(60,000)	(196,368)
Increase/(decrease) in other financial liabilities	(190,681)	264,130
	(250,193)	67,784
Cash flows from capital activities:		
Purchase of capital assets	(676)	(677)
	(676)	(677)
Increase/(decrease) in cash and cash equivalents	(239,491)	85,804
Cash and cash equivalents, beginning of year	315,631	229,827
Cash and cash equivalents, end of year	**$76,140**	**$315,631**

See accompanying notes to financial statements.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

1) NATURE OF OPERATIONS:

The *Electricity Restructuring Act, 2004* established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with this act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and to develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative energy sources and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative energy sources and renewable energy sources
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and to the adequacy and reliability of the integrated power system to meet those needs.

The OPA's ability to continue as a going concern is dependent on its ability to obtain financing to support operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

Due to the OPA's primary objectives, the OPA plans for revenues to fund expenses. Any variances that occur are addressed in the following year's revenue requirement submission. As of December 31, 2013, the Minister of Energy had not provided formal approval of the OPA's business plan or the OPA's proposed usage fee for 2014. However, on December 19, 2013, the OEB approved an interim fee until such time as the OPA's revenue requirement submission is filed and decided upon. This rate is effective January 1, 2014.

During 2012, the Province of Ontario announced a plan to merge the OPA and the IESO. In December 2012, the Premier prorogued parliament thereby terminating the legislation to enact the merger. Since the merger would require the introduction and passing of a new bill, the likelihood and timing of a merger is indeterminable at this time.

Notes to the financial statements (in thousands of dollars)
As at December 31, 2013, with comparative figures for 2012

2) SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:
The financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (Standards) including the 4200 standards for government not-for-profit organizations.

(b) Revenue recognition:
Fees earned by the OPA are based on OEB-approved rates for electricity withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

Amounts received in the current year that relate to services and programs to be approved and/or provided in future periods are deferred until they are approved and/or provided.

(c) Cash and cash equivalents:
Cash and cash equivalents comprise bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 90 days.

(d) Capital assets:
Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service life
Furniture and equipment	10 years
Computer hardware	4 years
Computer software	3 to 5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(e) Employee pension benefits:

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA does not have sufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Financial Instruments:

Financial instruments are recorded at fair value on initial recognition. Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

Long-term debt is recorded at cost.

The Standards require an organization to classify fair value measurements using a fair value hierarchy, which includes three levels of information that may be used to measure fair value:

- **Level 1 –** unadjusted quoted market prices in active markets for identical assets or liabilities
- **Level 2 –** observable or corroborated inputs, other than level 1, such as quoted prices for similar assets or liabilities in inactive markets or market data for substantially the full term of the assets or liabilities
- **Level 3 –** unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities.

(g) Measurement uncertainty:

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

3) ACCOUNTS RECEIVABLE:

	2013	2012
Market contracts:		
Generation contracts	$393,848	$474,424
Conservation contracts	43,947	54,382
Renewable energy contracts	179	12,555
	437,974	541,361
Other	209	262
HST/GST receivable	-	5,340
	$438,183	**$546,963**

4) CAPITAL ASSETS:

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Furniture and equipment	$3,384	$2,191	$1,193	$1,502
Computer hardware	4,807	4,480	327	224
Computer software	7,892	6,567	1,325	2,458
Audio-visual equipment	237	173	64	79
Telephone system	382	338	44	32
Leasehold improvements	5,190	3,680	1,510	2,333
	$21,892	**$17,429**	**$4,463**	**$6,628**

5) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	2013	2012
Accrued contract settlements	$310,590	$211,522
Other accrued liabilities	49,774	263,317
HST/GST payable	1,667	-
	$362,031	**$474,839**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

6) CONTRACT DEPOSITS:

Program deposits:

The OPA receives performance security in the form of deposit amounts received from renewable energy supply, Feed-In Tariff (FIT) Program and demand response suppliers. For suppliers engaged in a contract that involves the construction of a new supply facility, the deposits are larger during the construction phase and are reduced once a project commences commercial operations. Deposits related to the FIT Program are submitted to the OPA with the supplier application and can be returned if one of the following occurs: (a) the supplier withdraws its application from the program, (b) the supplier obtains a contract with the OPA, or (c) the supplier's application is rejected by the OPA.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the supplier on request.

The new FIT Program that was initiated in October 2013 (FIT 3.0) does not require the collection of program deposits.

Program registration fees:

The OPA also requires a registration fee from applicants to some renewable energy programs. Changes to FIT Program Rules in 2012 affected the existing applicants to this program. As a result, registration fees were made available for refund. Refunds were recorded as debits to the registration fee income account resulting in a negative balance.

The FIT 3.0 program requires a registration fee from applicants as well; however, this fee is not intended to be refundable to applicants in accordance with the rules of this program.

7) DEFERRED RENT INDUCEMENT AND OPERATING LEASE COMMITMENTS:

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of $1,430. As at December 31, 2013, the deferred rent inducement, net of amortization, was $258 (December 31, 2012 - $403).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2013, the accrued liability was $125 (December 31, 2012 - $189).

Lease commitments are set to terminate by October 2015. Lease commitments include amounts for leased computer hardware. Computer hardware commitments terminated in 2013. The minimum annual payments remaining under the operating lease are approximated as follows:

Lease Commitments	
2014	$1,650
2015	1,294
	$2,944

ONTARIO POWER AUTHORITY

Notes to the financial statements (in thousands of dollars)
As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES:

Other financial liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations under the act and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2013	2012
Other financial liabilities	$(99,237)	$(289,918)

RPP variance accounts:

While prices for RPP consumers are set every six months by the OEB based on a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecasted cost of supplying electricity to all RPP consumers. When HOEP is greater than the RPP, the OPA pays the excess amount and records a financial asset as the electricity market funds paid are receivable from the market. When the HOEP is less than the RPP, the OPA receives the difference and records a financial liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2013	2012
OPG rebate contribution	$(603,351)	$(602,736)
Total RPP variance before interest	493,581	299,896
Interest earned	10,533	12,922
	$(99,237)	**$(289,918)**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

8) OTHER FINANCIAL LIABILITIES (CONTINUED):

Global adjustment account:

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for: the Demand Response 2 and Demand Response 3 programs, non-utility generation, the regulated nuclear generation balancing amount and the regulated hydroelectric generation balancing amount. These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management, FIT Program and hydroelectric contract initiatives) that the OPA settles on a monthly basis with the IESO.

This account also includes charges related to OEB-approved non-OPA conservation programs. These programs are administered by local electricity distribution companies and charges related to them flow directly between the IESO and these companies.

The net impact of global adjustment transactions creates a zero balance in the account at every month end.

	2013	2012
Demand Response 2	$14,928	$17,782
Demand Response 3	42,806	35,337
Non-utility generation	1,132,615	1,090,982
Nuclear	1,492,901	1,636,129
Hydro	260,051	212,236
Renewable generation		
OPA contracts	4,784,048	3,463,341
Global adjustment balancing amount	(7,727,348)	(6,455,807)
	$ -	**$** -

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

9) INTERNALLY RESTRICTED CONSERVATION FUNDS:

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, 12 funds have been set up as listed in the table below. These funds were set up before April 2010. After that, in accordance with the April 2010 directive, all expenditures for new conservation and technology projects are recovered through the global adjustment mechanism.

	Restricted Fund	Expensed 2013	Expensed Prior Years	Balance 2013	Balance 2012
2005 - 2008 Conservation Fund	$8,600	$ -	$8,009	$591	$591
2009 Conservation Fund	3,000	-	2,546	454	454
2010 Conservation Fund	5,000	10	176	4,814	4,824
2005 - 2008 Technology Development Fund	3,500	-	2,916	584	584
2009 Technology Development Fund	1,500	-	1,415	85	85
2010 Technology Development Fund	4,500	395	1,099	3,006	3,401
	$26,100	**$405**	**$16,161**	**$9,534**	**$9,939**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

10) GENERAL OPERATING COSTS:

	2013	2012
General program costs	$4,956	$3,744
Premises	3,742	3,631
Information technology	1,537	3,253
Office and administration	686	644
Interest expense	22	470
	$10,943	**$11,742**

11) PENSION PLAN:

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2013, the OPA paid or accrued contributions totaling $2,001 (December 31, 2012 - $2,096) during the year.

12) CHANGE IN NON-CASH OPERATING ITEMS:

	2013	2012
Decrease/(increase) in accounts receivable	$108,780	$(130,861)
Decrease/(increase) in prepaid expenses	205	(264)
Increase/(decrease) in accounts payable and accrued liabilities	(112,808)	152,844
Decrease in contract deposits	(5,757)	(23,132)
	$(9,580)	**$(1,413)**

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

13) RELATED PARTY TRANSACTIONS:

The Province of Ontario is a related party as it is the controlling entity of the OPA. The OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy are related parties of the OPA, through the common control of the Province of Ontario. Transactions between these parties and the OPA were as follows:

Under the *Ontario Energy Board Act, 1998,* the OPA incurs registration and licence fees. Consistent with other registrants, in 2013 the OPA was allocated a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were $1,025 in 2013 (2012 - $1,041).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2013, the OPA procured $30,214 in conservation and demand management (2012 - $34,653), from Hydro One and its wholly owned subsidiaries. At December 31, 2013, the OPA had a net payable to Hydro One of $2,198 (December 31, 2012 - $nil).

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2013 was $75,934 (2012 - $76,298). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP on behalf of various market participants (see note 8). At December 31, 2013, the OPA had a net receivable of $393,795 (December 31, 2012 - $264,304). The OPA also incurred $123 in 2013 (2012 - $388) for professional services.

The OPA has available a revolving operating facility in the amount of $975,000, provided by the OFA to fund its general operating expenses and to support the RPP variance account. The line of credit was renewed in 2013 for a three-year term from January 1, 2014 to December 31, 2016 with an interest rate of 1.17 percent. On December 31, 2013, the OPA had a nil (December 31, 2012 - $60,000) outstanding balance to the OFA. In 2013, the OPA incurred nil (2012 - $470) in interest expenses for the loan. This is net of interest expense that was allocated to the market.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14) CONTINGENCIES AND GUARANTEES:

Contingencies:

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense will be recorded on the OPA's financial statements. As at December 31, 2013, in the opinion of management, no such liabilities existed.

Contract conditions related to the construction of a new clean energy facility stipulate that the OPA is contingently liable to repay upgrade costs, up to a maximum of $1,000, as incurred by the energy supplier. While none of these costs has been incurred to date, the OPA is liable to cover such costs over a 20-year period ending in 2025. As at December 31, 2013, management was not aware of any information to suggest that these upgrade costs will be incurred by the supplier.

Guarantees:

The OPA enters into contracts with suppliers of electricity as part of its normal business operations. In some cases, these contracts require the OPA to support obligations with these entities. In 2012, the OPA entered into a letter of credit amounting to $1,349 in support of a contracted obligation. As at December 31, 2013, no amounts had been drawn on the balance.

15) FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES:

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The carrying values of the operating loan approximate their fair values, as the terms and conditions for similar types of loan arrangements are comparable to current market conditions for similar items.

The fair values of other financial assets and other financial liabilities are not provided because this would not give additional useful information, as they would be offset and/or would not be practical to determine.

Notes to the financial statements (in thousands of dollars)

As at December 31, 2013, with comparative figures for 2012

16) FINANCIAL RISK MANAGEMENT:

The OPA is exposed to financial risks in the normal course of its business operations, including market risks resulting from credit risk, liquidity risk and interest rate risk. The nature of the financial risks and the OPA's strategy for managing these risks has not changed significantly from the prior year.

(a) Credit risk:

Credit risk refers to the risk that one party to a financial instrument may cause a financial loss for the other party by failing to meet its obligations under the terms of the financial instrument. The OPA is exposed directly to credit risk related to accounts receivable and bank deposits held at the chartered bank. Direct exposure to credit risk is limited to the carrying amount presented for these assets on the statement of financial position. Accounts receivable as of December 31, 2013 included no material items past due.

(b) Liquidity risk:

Liquidity risk refers to the risk that the OPA will encounter financial difficulty in meeting obligations associated with its financial liabilities. The OPA manages liquidity risk by forecasting cash flows to identify financing requirements. Cash flows from operations and maintaining appropriate credit facilities reduce liquidity risk.

(c) Interest rate risk:

The OPA's operating loan has a variable interest rate based on the Province of Ontario's cost of funds for borrowing, with a similar term as determined by the OFA plus a margin. As a result, the OPA is exposed to interest rate risk due to fluctuations in the Province of Ontario's cost of funds for borrowing with a similar term rate.

17) COMPARATIVE FIGURES:

Certain 2012 figures have been reclassified to conform with the financial statement presentation adopted in 2013.

Corporate Information

BOARD OF DIRECTORS

James D. Hinds, Chair
Retired from TD Securities Inc., where he was a Managing Director. Newcrest Capital Inc and CIBC Wood Gundy Inc.

Michael Costello, Director and Chair, Audit Committee
Retired from BC Hydro and BC Transmission Corporation (President and CEO). Director, InTransit BC, Health Benefit Trust and Conifex Timber

Richard P. Fitzgerald, Director
(Term of office expired October 16, 2013)
President of Mark Anthony Brands, Toronto

Susanna Han
(Appointed November 20, 2013)
Chief Financial Officer of Urbancorp

Adèle M. Hurley, Director
President, Hurley & Associates Inc. and Director, Program on Water Issues, Munk School of Global Affairs, University of Toronto

Ronald L. Jamieson, Director and Chair, Human Resources Committee
Retired from BMO Financial Group, where he was Senior Vice-President, Aboriginal Banking. Director, Nuclear Waste Management Organization and Denendeh Investments Inc. Chairman, Canadian Council for Aboriginal Business. Appointed to the Order of Ontario, January 2014

Bruce Lourie, Director
President of Ivey Foundation and a Director of the Consultative Group on Biological Diversity (San Francisco)

Lyn McLeod, Director and Vice Chair
Former Chair of the Ontario Health Quality Council and former Ontario representative on the Health Council of Canada. Founding Chancellor of the University of Ontario Institute of Technology and past Chair of the Board of Confederation College in Thunder Bay. Appointed to the Order of Ontario, January 2014

Deborah Whale
(Appointed November 20, 2013)
Vice-President, Clovermead Farms. Vice-Chair of Ontario Farm Products Marketing Commission

Colin Andersen, Director
Chief Executive Officer, Ontario Power Authority

CORPORATE OFFICERS

James D. Hinds
Chair

Colin Andersen
Chief Executive Officer

JoAnne Butler
Vice-President, Electricity Resources

Kristin Jenkins
Vice-President, Corporate Communications

Michael Lyle
General Counsel and Vice-President, Legal, Aboriginal and Regulatory Affairs

Kimberly Marshall
Vice-President, Business Strategies and Solutions

Andrew Pride
Vice-President, Conservation

Amir Shalaby
Vice-President, Power System Planning

Susan Kennedy
Corporate Secretary

For more information on the Board of Directors, including the Board Charter and Code of Conduct, Governance and Structure By-Law, and Board committees, please visit the OPA website, www.powerauthority.on.ca and select About Us; Management, Mandate and Organization; Board of Directors.

STAKEHOLDER ADVISORY COMMITTEE

Brian Bentz
Stakeholder Advisory Committee Chair, CEO PowerStream

Steve Baker
President, Union Gas Limited

John Beaucage
Member, OPA Aboriginal Energy Working Group;
Principal, Counsel Public Affairs

Bryce Conrad
President and CEO, Hydro Ottawa

Laura Cooke
Vice-President, Corporate Relations, Hydro One Networks Inc.

Jared Donald
President, Conergy Canada

Julie Girvan
Independent, Consultant/Consumer Advocate

Valerie Helbronner
Partner, Torys LLP

Tim Gray
Executive Director, Environmental Defence

Kristin Jenkins
Vice-President, Corporate Communications, OPA

Geoff Lupton
Director, Energy, Fleet and Traffic, City of Hamilton

Brenda Marshall
Vice-President, Marketing, TransAlta

Rob Mace
President and CEO, Thunder Bay Hydro Electricity Distribution Inc.

Ian Rowlands
Member, OPA Advisory Council on Conservation;
Professor, Environment and Resource Studies, University of Waterloo

James Scongack
Vice-President, Corporate Affairs, Bruce Power

David Timm
Vice-President, Sussex Strategy Group

Adam White
President, Association of Major Power Consumers in Ontario

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